

Testimony Before the Montana Senate Public Health Welfare and Safety Committee

House Bill 573

March 7, 2011

Exhibit No. 8

Date 3/7/2011

Bill No. HB 573

Mr. Chairman, members of the committee, my name is Eric Schindler. I am CEO of the Montana School Services Foundation. We have the contract to manage MUST, the Montana Unified School Trust, a trust that provides health-benefit plans to 136 Montana school districts. I am also a past chairman of the Board of Directors of St. Peter's Hospital here in Helena. I speak in support of this legislation.

There is an age old riddle...why did the chicken cross the road? And the answer is because it can. Why did Benefis Health System in Great Falls increase costs 16% this year to the Montana people teaching our kids and the folks supporting those teachers who are MUST members? The answer is because it can.

As you may recall, because of the merging of two hospitals in Great Falls in 1996, Benefis was operating under a Certificate of Public Advantage, referred to as the COPA, under the watchful eye of the Attorney General. The COPA was terminated effective July 8, 2006 from successful 2007 legislation that was applied retroactively. Among the arguments used by Benefis for termination was the increased competition in the market from the Great Falls Clinic. Since the COPA was rescinded the Great Falls Clinic is a shadow of its former self and there is no effective hospital competition to Benefis in the Great Falls market.

And here is a prime example of why we need an all payer database that provides transparency. An article published in the Great Falls Tribune on February 18th of this year stated "Benefis administrators have pledged not to increase prices in 2011".

There are two ways for a hospital to increase costs to payers. The first is to increase their price list called a "Charge Master" which is effectively adding an inflationary price increase to each service. The second is to reduce discounts allowed to networks that have an agreement with a hospital. The 16% Benefis cost increase in 2011 results from reducing network discounts allowed to MUST members...take it or leave it. So, while they did not "increase prices", they increased costs 16%. When I had a conversation with the Chief Financial Officer of Benefis to express my concerns he stated...and I quote, "Well, it's not as bad as it seems because we've increased our prices 9% per year for the last couple of years and we aren't going to increase our prices this year."

Wow...what a break! 9% times 9% times 16% equates to a 38% increase to MUST members in the last 3 years since the COPA was rescinded...and we wonder what's wrong with our healthcare system?

The Benefis CFO also informed me that a number of payer contracts were terminated and every remaining payer, without exception, had their discounts cut...but no one had their prices increased? So a MUST member who had an out-of-pocket amount owed of \$1,000 to Benefis last year owes \$1,160 this year for the same services, but he or she did not have prices increased?

This 16% increase in costs by Benefis Health System in Great Falls is monopolistic, predatory price behavior. If the cost of gas increased by 16% from the only gas pump in town, or grocery costs increased 16% from the only grocery store in town, or utility costs increased 16% because of no regulation, the public would be outraged...and rightfully so. I am making this issue public in my testimony today in the hope of garnering support from folks, including you, who should be outraged by this behavior. It is also my hope that this message is heard by the volunteer community members of the Board of Directors of Benefis Health System so they have a clear understanding of the misleading public pledge not to increase prices in 2011.

There are some hospitals in Montana that are good stewards for their communities, so I don't want to paint them all in the same light as Benefis. However, the truth is that most hospitals in Montana operate with no competition and no private-payer price regulation...they are monopolies. And the trend towards an integrated model with physicians makes them even more of a monopoly.

So while it's a good idea to create more transparency on costs, this bill is only to study the issue and it will be years until an all payer database may be implemented, if at all. It is a good first step, but it may be too late to stop the unsustainable increase in costs that the Affordable Care Act did not address.

An all payer database will lead to transparency that will not allow providers to make public claims that are misleading and it will allow the public to monitor pricing behaviors.

I urge you to support this legislation.

Health care not immune to recession

Great Falls Tribune - Great Falls, Mont.

Author: ERIN MADISON

Date: Feb 18, 2011

Start Page: n/a

Section: REPOSITORY

Text Word Count: 1187

Document Text

The effects of the recession haven't gone unnoticed by health care entities in Cascade County.

Between 2007 and 2010, Benefis Health System saw its bad debt increase by 81 percent, from \$7.14 million in 2007 to \$12.9 million in 2010.

Despite the increase in patients struggling to pay their bills, Benefis continues to do well financially, said Benefis CEO John Goodnow.

"Although charity care and bad debts have increased dramatically as a result of the recession that began in 2007, Benefis has met its budgeted operating margin each year, while continuing to give our employees raises. We've achieved that through careful stewardship of our resources," he said.

Cost reduction

Goodnow credits this to its aggressive cost-reduction efforts.

Benefis cut its cost per case by almost 10 percent between 2008 and 2010.

That was achieved mainly through labor and supply costs, Goodnow said. In 2010 alone, Benefis identified and implemented changes in its materials budget amounting to \$1.2 million in annual savings on everything from printing supplies to surgical equipment. For example, Benefis identified \$116,000 in savings on toner cartridges last year by switching to a new brand and using reprocessed cartridges. Benefis will save \$32,000 annually by buying exam gloves and other surgical supplies directly from the manufacturer instead of through a distributor.

None of these savings impact the quality of patient care, Goodnow said.

Benefis hopes to reduce its costs another 5.2 percent this year, according to Goodnow.

No price increase

Benefis administrators have pledged not to increase prices in 2011.

"Benefis charges less for care than our peers here in Montana and we have low costs and charges when compared with other parts of the United States," Goodnow said. "We are firm believers that an organization can be both low-cost and high-quality."

In 2010, Benefis Health System was 2.6 percent lower on inpatient charges and 29.2 percent lower on outpatient charges compared with its peer group in Montana.

Despite the difficult economic climate, Benefis continued to grow in 2010 and has more projects planned for 2011.

Benefis announced late last year plans to build a 66-acre senior-services campus that will include free-standing homes, independent-living apartments, assisted-living apartments, memory-support apartments and skilled-nursing cottages.

The groundbreaking of the project's first phase, which includes the assisted-living apartments, memory-support apartments and skilled-nursing cottages, is set for fall 2011. The first phase is estimated to cost \$27 million.

Benefis plans to open a sales office in the Evergreen Mall, 1301 11th Ave S. in April for the campus, which will be known as The Grandview at Benefis.

The groundbreaking for phase 2 of The Grandview, which includes the independent-living apartments and free-standing homes, is slated for late 2012. A cost estimate for phase 2 has not been determined.

The senior-services campus is designed to offer a continuum of care for its residents. Those ages 55 and older can move into an independent-living house or apartment, and then transition to assisted-living or skilled-nursing care as needed.

Fall 2011 also will see the completion of Benefis' new \$17 million Medical Office Building. The building is under construction adjacent to the 72,000-square-foot Orthopedic Center of Montana that opened in March 2010.

The 80,000-square-foot Medical Office Building will house up to 55 doctors and mid-level providers.

The building will help make room for Benefis' growing Medical Group.

The Benefis Medical Group, which employs physicians and midlevel providers, had 78 providers by the end of 2010. That's up from 15 providers in 2008.

Facilities represent approximately 10 percent of overall costs at Benefis. New projects are financed through long-term, tax-exempt bonds, supplemented by philanthropy and grants.

Peak expansion

This year also will see the completion of a \$3.5 million expansion and renovation of the Peak Health & Wellness facility, owned by Benefis and two private partners, Doug Mahlum of Bigfork, and Jack Tawney of Seattle. That project will include:

Adding a 32-by-61-foot warm-water pool that will feature a therapy area and a shallow kids' play area with fun water features.

A new steam room.

Remodeled locker rooms.

An expanded juice bar.

2,500 square feet added to the fitness area.

The Great Falls Clinic is looking ahead to a year of growth as well.

Over the next 18 months, the Clinic plans to add about 30 partners, said Patrick Hermanson, CEO of the Clinic.

The Clinic currently has 75 providers: 32 physician partners, 20 physicians who are pre- or non-partners, and 23 midlevel providers.

"Essentially we want to double the number of partners," Hermanson said.

The Clinic continues to actively recruit providers and has seen a lot of interest in the Great Falls Clinic and Great Falls itself from recently graduated and longtime physicians and midlevel providers.

Providers leave

At one point, the Clinic had more than 140 total providers. Many providers left the Clinic and moved to other communities, joined Benefis Medical Group or went into private practice.

Despite its loss of providers, the Clinic continues to do well financially, Hermanson said.

"I would say the Clinic's doing very well," he said.

The use of the Clinic's ancillary services, such as surgery, X-ray and lab has remained strong.

"We've had great success with our cancer center," he said.

The Clinic's staff also has done a nice job of managing expenses.

"We have strong patient loyalty," Hermanson said.

The Clinic continues to look for another organization with which to partner.

"We've had a lot of activity in that regard," Hermanson said.

A partner would help the Clinic grow, attract new physicians and maintain first-class facilities.

Administrators expect to make an announcement about a partner soon.

"I'm personally excited because I think the future of the Great Falls Clinic is very bright," Hermanson said.

The Great Falls Clinic Medical Center, located at 1411 9th St. S., continues to do well and stay busy, with plans of growth in 2011.

Medical Center expansion

"We're seeing very significant interest in expansion of our activities here," said Dr. Nicholas Bonfilio, orthopedic surgeon at the Medical Center.

In January, Medical Center administrators announced that the Clinic's total-joint program, housed at the Medical Center, was awarded a five-star rating from HealthGrades and was named the best joint program in Montana.

The Medical Center plans to expand its service lines with new medical and surgical programs, said Vicki Newmiller, chief operating officer of the Great Falls Clinic Medical Center.

"We recognize that our patients want more," she said.

Benefis recently purchased the building that houses the Great Falls Clinic Medical Center and the adjacent surgery center and medical office building. The deal closed on Dec. 31.

The hospital, surgery center and medical office building was built by Harold Poulsen starting in 1999. The Clinic has leased the hospital from Poulsen since 2006.

The Clinic's lease is good through 2016.

"We're just a landlord right now," Goodnow said. "It was kind of like an investment."

The Clinic hasn't yet announced how long the Medical Center will stay in the 9th Street building or where it will go, but administrators don't have any plans to put an end to the Clinic's hospital.

"The Great Falls Clinic Medical Center plans on growth and success," Newmiller said.

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